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**BSG PROPRIETARY**

**Brigham Surgical Group Foundation, Inc.**

**PROFESSIONAL STAFF COMPENSATION POLICY**

**15 September 1976**

**(Revised 5/16/96)**

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### **Preamble**

This version of the Professional Staff Compensation Policy has been updated to reflect all changes in the handling of New Member Surpluses and Deficits approved by the Committee on Compensation to be effective November 4, 1994. Changes effective 1/01/96 and 4/01/96 respectively in the Recovery of Member Deficits and Bonus Payment Policy. Changes are effective 5/15/96 in the Post-Termination Bonus Policy.

Refer to the respective plan documents for the current provisions of the Brigham Surgical Group Foundation, Inc. Pension Plan (401(a) Defined Contribution Plan); the Faculty Educational Benefits Plan (FEBP), the Faculty Retirement Benefit Plan (FRBP) and the Unfunded Deferred Compensation (UDC) plan.

## PROFESSIONAL STAFF COMPENSATION POLICY

**OBJECTIVE:** To provide a system of compensation that will enable the acquisition and retention of a professional staff of national and international stature and assure a balanced program of patient care, teaching and research.

All compensation paid directly or indirectly to Members of the professional staff of the Brigham Surgical Group Foundation, Inc. (the Group) will be in compliance with the provisions and limitations set forth in the Harvard System of Titles, Appointments and Compensation Arrangements for the Faculty of Medicine of Harvard University and shall be subject to the review, approval and/or ratification of the Group's Committee on Compensation as provided in the Bylaws of the Corporation.

Compensation arrangements shall be established with a view to adequacy, reasonableness and propriety in light of educational, scientific and other charitable objectives of the Corporation. In determining the compensation of any individual, activity resulting in the production of revenue shall be a relevant consideration, but not the sole or primary consideration. Other relevant considerations include pedagogical activity or scholarship and participation in the governance of the Corporation, hospital or medical school by committee work and similar activity.

Each Member will be eligible to receive two salary components, a component for OR-TEACHING activities and a component for NON-OR TEACHING (NON-OR) activities. The OR-TEACHING salary component covers all activities that involve a billable service. The NON-OR component covers research, administration and teaching that does not involve a billable service. These two salary components are further defined in Appendix B.

1. Members shall have an OR-TEACHING salary based on their OR-TEACHING salary for the previous Academic Year (AY) plus 0-50% of any net practice surplus for such prior year but within ceiling, as determined by the Surgeon-in-Chief. The calculation of net practice surplus or deficit and Net Practice Income (NPI) for each Member will be determined as defined in Appendix A.
2. New Members of the Group will start at a salary level from all sources to be determined by agreement between the Division Chief or sponsor and the Surgeon-in-Chief. This starting salary plus a 401(a) qualified pension plan contribution thereon will be guaranteed for a period through the new members initial guarantee period and may be adjusted annually for increases in the cost-of-living as measured by the Consumer Price Index (CPI/U). Any new member at the rank of Instructor or Assistant Professor who generate NPI will have the amount of surplus first allocated to the Member's division up to the amount of any deficit previously incurred by the division. Additional surplus beyond prior divisional deficits and the offer salary will be divided equally between the new member and the Group. This 50% split will continue until the member is at ceiling. The new member would remain at the offer salary plus 50% of surplus until the completion of their third full year of employment with the Group. New Members at the rank of Associate Professor or Professor who generate NPI in excess of their starting OR-TEACHING salary will receive an incentive bonus within Harvard ceiling and a 401(a) qualified pension plan contribution thereon within the available excess in the same manner as Members not in New Member status. The Group will absorb a new member deficit in Year 1 limited to salary, benefits, liability and an expense cap determined by the Surgeon-in-Chief. Any new member's

expenses beyond the Group's guarantee will be allocated such that the Group's portion of surplus from the Division is not reduced. Deficits in Years 2-3 will be absorbed by the new member or the new member's Division. New Member eligibility for the Faculty Educational Benefits Plan (FEBP), the Faculty Retirement Benefit Plan (FRBP) and the Unfunded Deferred Compensation (UDC) plan is specified in the respective plan documents.

3. OR-TEACHING salary levels will be re-established each AY as soon as practicable after the end of the previous year and will be retroactive to July 1st. Once established, OR-TEACHING salaries will remain fixed for the full AY. Recovery of a current year member deficit will begin immediately after the quarter in which it occurs. The deficit will be offset by reducing salary by a maximum of 10% of OR-TEACHING or the total deficit over the remaining months in the year, whichever is less. Recovery of a Member's prior year(s) deficit will be monitored each quarter. If a ten percent (10%) reduction of the remaining deficit forward is not reached in practice surplus each quarter, the deficit will be offset by reducing salary by a maximum of 10% of OR-TEACHING salary or the balance of the deficit, whichever is less, per quarter. In the case of both a current year and prior year deficits, only on 10% reduction in salary will apply, per quarter. The Surgeon-in-Chief has the authority to overrule this policy when deemed necessary.

OR-TEACHING salaries may be adjusted at mid-AY at the discretion of the Surgeon-in-Chief. The adjustment will be based on NPI for the current AY using the average Net Receipts for the past 12 months and estimated expenses through the end of the current AY. OR-TEACHING incentive salary bonuses from available NPI will be paid on the first payroll date following the quarter in which it occurs. The available NPI must be in excess of 10% of current base OR-TEACHING salary to qualify for a bonus payment. The bonus will be calculated at 50% of the available NPI less pension, applicable taxes and other payroll requirements. Bonus payments may only occur if there is no current or prior deficit and must comply with Harvard's Compensation Guidelines. The Surgeon-in-Chief has the authority to overrule this policy when deemed necessary.

4. When prior year NPI exceeds a Member's OR-TEACHING salary for that year, an OR-TEACHING incentive salary bonus, including a 401(a) qualified pension plan contribution thereon, will be paid from the excess NPI, the maximum bonus being that amount that will bring the Member's total salary from all sources up to full Harvard ceiling for the Member's rank. The maximum 401(a) pension contribution being that amount that will bring the Members total 401(a) pension contribution up to the applicable IRS cap.

*The details of the 401(a) pension plan are contained in the Brigham Surgical Group Foundation, Inc. Pension Plan documents.*

5. The NPI that is excess after full Harvard ceiling for current cash compensation for a Member has been reached plus any pension plan contributions thereon (or such lesser amount as may result from any applicable IRS cap), will be credited to the Group's Faculty Retirement Benefit Plan (FRBP) for eligible Members up to the full Harvard ceiling for retirement plans of 25% of Total salary (including NON-OR TEACHING salary and any OR TEACHING incentive bonus amounts as in paragraph 4.) The Group may reduce, in whole or in part, the amount so credited to the FRBP for the Member in light of any special research grants awarded by the Employer with respect to such Member's research. However, any such reduction shall be disregarded for purposes of determining the excess under paragraph 6. below, ie: such reduction shall not be

deemed to increase the amount credited to the member as an Unfunded Deferred Compensation allocation.

*The details of the FRBP eligibility and benefits are contained in the Brigham Surgical Group Foundation, Inc. Faculty Retirement Benefit Plan documents.*

5. When there remains excess NPI after the deductions described in paragraphs 4. and 5. above, any unallocated 401(a) pension plan contributions on NON-OR TEACHING salary will be deducted from such remaining excess NPI.
6. When there remains excess NPI after the deductions described in paragraphs 4., 5. and 5a. above, an amount equal to 50% of the excess will be credited to an eligible Member's account as an Unfunded Deferred Compensation (UDC) allocation. The amount credited to a UDC allocation for a given year shall not exceed 75% of full Harvard ceiling. To avoid a financial hardship, UDC may be used to offset an OR-TEACHING salary deficit or to provide supplemental income in a year when usual compensation falls below Harvard ceiling but otherwise may not be received by a Member except by reason of death, disability, termination of employment or retirement.

UDC for Members employed by the Group prior to 8/16/86 will be credited on a before-tax basis and will accrue earnings and/or capital appreciation on a tax-deferred basis.

UDC for member employed by the Group on or after 8/16/86 will be credited on an after-tax basis but will accrue earnings and/or capital appreciation on a tax-deferred basis.

*The details of the UDC plan eligibility and benefits are contained in the Brigham Surgical Group Foundation, Inc. Unfunded Deferred Compensation plan documents.*

7. The amount of a Member's NON-OR TEACHING salary will be based on specific NON-OR TEACHING activities as defined in Appendix B. It is the responsibility of each Member of the Group to inform the Executive Administrator of the Group of any changes in NON-OR TEACHING activities. Failure to report a new compensable NON-OR TEACHING activity will not ordinarily result in a retroactive NON-OR TEACHING salary adjustment. Failure to report the termination of a NON-OR TEACHING activity for which compensation is being received will usually result in a retroactive offsetting OR-TEACHING salary adjustment if their NPI so warrants. NON-OR TEACHING salary is not included in the computation of NPI.

NON-OR TEACHING salary will have 401(a) qualified pension contributions applied in the same manner as OR-TEACHING salary. 401(a) pension contributions on NON-OR TEACHING salary will not be allocated to a Member's account for computation of NPI but such pension contributions on NON-OR TEACHING salary will be subtracted from any surplus NPI prior to crediting UDC allocations.

8. Any excess NPI not paid or allocated to individual Group Members under the foregoing policy shall accrue to the Brigham Surgical Group Foundation, Inc. Expenditure of these excess funds shall be based on the recommendations of the Surgeon-in-Chief with the approval of the Board of Directors.
9. The income from application of the Departmental Charge rate as provided in Appendix A for the determination of NPI will be used for Business Office expense; undistributed expenses; new

Member deficits incurred during their guarantee period; benefit plan legal and auditing fees; interest expense; some limited Divisional expense funds and such other items of expense of a Departmental nature as may be approved by the Surgeon-in-Chief.

Expenditure of Departmental Charge funds shall be under the control of the Surgeon-in-Chief and the general review of the Executive Committee of the Board of Directors. The amount of this charge will be subject to re-establishment each year by the Executive Committee at the minimum level necessary to fund the indicated activities.

10. All Members who have completed four full years of employment with the Group and terminate service, including termination because of death, shall be eligible for post-termination incentive bonuses equal to 50% of their post-termination NPI less any prior years deficits, including any deficits incurred in the guarantee period with the Group, less any unauthorized research overruns not previously offset with pre-ceiling practice surplus or FRBP accruals. The deficits incurred during the guarantee period will be forgiven for members who have completed ten full years of employment with the Group.

A terminating member may allocate post-termination incentive bonuses against any second mortgage with the Group and may allocate post-termination incentive bonuses against any outstanding 401(a) pension loans subject to the following limitations:

- a. Once post-termination bonuses are allocated to pension loan payments, such allocations must continue until the pension loan is fully repaid.
  - b. When anticipated post-termination bonus payments have reached the point where they are projected to be less than the periodic payment on a pension loan as projected by the Executive Administrator of the Group, any remaining pension loan balance must be settled in accordance with the terms of the loan agreement, ie: the balance must be paid by the member or a taxable distribution will be made to the member for the amount of the remaining balance.
11. Members that have a substantial drop in their non-Group salary components during the academic year are eligible for an offsetting OR-TEACHING salary increase if their NPI so warrants.
  12. Members who terminate service for any reason other than death prior to completing four years of service will receive severance pay equal to their 401(a) pension contribution minus any OR-TEACHING deficits incurred by the Member as computed under this compensation policy. The four year period and related compensation will be measured from July 1st of the Member's first 12 months of employment. Severance pay shall be paid to a terminating Member within two year's of the termination date.
  13. Members at the rank of Associate Professor or Professor that complete 6 years of service become eligible for up to one year of sabbatical leave, subject to the prior approval of the Surgeon-in-Chief. The sabbatical cycle is 7 years, 6 years of service and one year of sabbatical leave. The purpose of sabbatical leave shall be health, rest, study or the prosecution of original work on science or medicine. No more than two Members may be on sabbatical leave at the same time. While on sabbatical, one half of a Member's Harvard academic ceiling salary will be paid by the Group for up to one year, or any equivalent combination, ie: full academic ceiling salary for 6 months. For leaves of less than 6 months, the amount is reduced on a pro rata basis, ie: a 3 month leave would be entitled to 3/6ths of Harvard academic ceiling, etc. Amounts to be paid

by the Group will be offset by any amounts received from other sources by the member during the sabbatical period. Additional salary may be allowed at the discretion of the Committee on Compensation if it is determined that a) work done in previous years has not been adequately compensated as measured by income received by the Group during the sabbatical leave resulting from the Member's prior OR-TEACHING activities or b) in the case of a faculty member with accrued UDC, failure to receive additional pay would entail a financial hardship, in which case any additional pay allowed would be charged to the Member's UDC account.

## APPENDIX A

### Determination of Net Practice Income (NPI)

The Net Practice Income (NPI) for each Member of the Group shall be determined annually based on financial transactions occurring during the Academic Year (AY) (July 1 - June 30). This determination will be made by finding the difference between the income resulting from Member OR-TEACHING activity and Member expenses during the AY. Member expenses include all direct and allocated expenses incurred by or on behalf of the Member involved plus a Departmental Charge equal to a percentage of Net Receipts attributable to the Member's OR-TEACHING during the AY.

Direct and allocated OR-TEACHING expenses shall include all reasonable and allocable professional expenses for travel, professional memberships, books and subscriptions and professional liability insurance premiums; all office expenses including secretarial and paramedical salaries and their associated fringe benefits, office and medical supplies and other usual medical office expenses; and all professional fringe benefits.

Professional fringe benefits will vary from time to time but generally will include FICA (Social Security), health insurance (Blue Cross/Blue Shield, Medicare B, Medex, HPFC, HUGHF, etc.), taxable uninsured medical expense reimbursement payments, group term life insurance, accidental death and dismemberment insurance (AD&D), individual disability insurance (Non-Can), group long term disability insurance (LTD), and a pension/deferred income retirement benefit. The provisions of the pension/deferred income retirement plans are in separate plan documents.

The following 2 forms demonstrate the calculation of NPI: